

GUAM MEMORIAL HOSPITAL AUTHORITY

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2001 AND 2000



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Memorial Hospital Authority:

We have audited the accompanying balance sheets of the Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam, as of September 30, 2001 and 2000, and the related statements of revenues and expenses, changes in fund balances and cash flows for the years then ended. These financial statements are the responsibility of GMHA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of GMHA as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, GMHA changed its method of accounting for nonexchange transactions in 2001 to conform with Government Accounting Standards Board Statement No. 33 and has restated the 2000 financial statements to reflect the change.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Guam Memorial Hospital Authority, taken as a whole. The accompanying schedules on pages 13 and 14 are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the management of Guam Memorial Hospital Authority. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated June 17, 2002, on our consideration of Guam Memorial Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

June 17, 2002, except for note 11 as to which the date is December 8, 2002

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Balance Sheets September 30, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
Current assets:		
Cash	\$ 4,687,811	\$ 3,357,596
Restricted cash	<u>252,190</u>	<u>493,023</u>
Total cash	4,940,001	3,850,619
Patient accounts receivable, net (note 8)	27,172,251	28,080,241
Other receivables	893,439	556,406
Inventories	1,638,754	1,244,305
Prepaid expenses	<u>1,344,510</u>	<u>47,439</u>
Total current assets	35,988,955	33,779,010
Property, plant and equipment, net (notes 2 and 6)	<u>45,641,165</u>	<u>46,148,564</u>
	<u>\$ 81,630,120</u>	<u>\$ 79,927,574</u>

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Balance Sheets, Continued
September 30, 2001 and 2000

<u>LIABILITIES AND FUND BALANCE</u>	<u>2001</u>	<u>2000</u>
Current liabilities:		
Current portion of long-term debt (note 6)	\$ 3,855,062	\$ 3,191,099
Accounts payable - trade	6,113,379	7,430,726
Accounts payable - Government of Guam (note 9)	8,803,757	4,181,882
Accrued payroll and benefits	949,786	839,950
Current portion of accrued annual leave	1,639,553	1,661,579
Other accrued liabilities	<u>710,133</u>	<u>871,586</u>
Total current liabilities	22,071,670	18,176,822
Long-term debt (note 6)	26,841,868	27,852,542
Deferred retirement fund contributions (note 4)	15,750,999	15,905,244
Accrued annual leave - non-current portion	<u>1,690,999</u>	<u>1,357,985</u>
Total liabilities	<u>66,355,536</u>	<u>63,292,593</u>
Fund balance:		
Unrestricted	12,846,932	14,178,346
Temporarily restricted (note 10)	<u>2,427,652</u>	<u>2,456,635</u>
Total fund balance	<u>15,274,584</u>	<u>16,634,981</u>
Commitments and contingencies (notes 5 and 7)	<u>\$ 81,630,120</u>	<u>\$ 79,927,574</u>

See accompanying notes to financial statements.

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Statements of Revenues and Expenses Years Ended September 30, 2001 and 2000

	2001	2000 As restated (note 1)
Net patient service revenue (note 6)	\$ 72,128,002	\$ 69,946,670
Other operating revenue:		
Food sales, cafeteria	574,679	566,703
Other	463,826	281,549
Total operating revenue	<u>73,166,507</u>	<u>70,794,922</u>
Operating expenses:		
Nursing	29,070,439	26,021,580
Ancillary	16,792,988	15,882,457
Bad debts	8,784,163	9,854,190
General services	8,846,172	9,234,094
Administrative support	8,208,500	8,243,021
Depreciation	3,531,704	3,220,390
Medical staff	2,737,567	2,288,096
Administration	2,258,799	3,003,383
Total operating expenses	<u>80,230,332</u>	<u>77,747,211</u>
Loss from operations	<u>(7,063,825)</u>	<u>(6,952,289)</u>
Non-operating revenues (expenses):		
Contributions	171,445	53,583
Transfers from the Government of Guam (note 7)	5,651,175	9,453,997
Federal grant award revenues	2,415,045	1,186,622
Other (expense) revenue, net (note 7)	(28,983)	3,235,323
Interest and penalties (note 9)	(2,505,254)	(2,704,296)
Total non-operating revenues (expenses)	<u>5,703,428</u>	<u>11,225,229</u>
Net excess of revenues over expenses (expenses over revenues)	<u>\$ (1,360,397)</u>	<u>\$ 4,272,940</u>

See accompanying notes to financial statements.

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Statements of Changes in Fund Balances Years Ended September 30, 2001 and 2000

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at September 30, 1999	\$ 9,905,611	2,456,430	\$ 12,362,041
Assets released from restrictions year ended September 30, 2000	1,186,417	(1,186,417)	-
Excess of revenues over expenses, year ended September 30, 2000	<u>3,086,318</u>	<u>1,186,622</u>	<u>4,272,940</u>
Balance at September 30, 2000, as restated (note 1)	14,178,346	2,456,635	16,634,981
Assets released from restrictions year ended September 30, 2001	2,400,763	(2,400,763)	-
Excess of (expenses over revenues) revenues over expenses, year ended September 30, 2001	<u>(3,732,177)</u>	<u>2,371,780</u>	<u>(1,360,397)</u>
Balance at September 30, 2001	<u>\$ 12,846,932</u>	<u>\$ 2,427,652</u>	<u>\$ 15,274,584</u>

See accompanying notes to financial statements.

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Statements of Cash Flows
Years Ended September 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Cash received from patients	\$ 63,885,815	\$ 60,957,982
Payments to suppliers for goods and services	(16,867,433)	(16,289,517)
Payments to employees for services	(47,435,133)	(43,321,971)
Other operating revenues	1,038,505	848,252
Net cash provided by operating activities	<u>621,754</u>	<u>2,194,746</u>
Cash flows from non-capital financing activities:		
Transfers from the Government of Guam	5,651,175	2,945,431
Repayment of notes payable	(2,257,149)	(1,662,557)
Interest paid	(2,382,129)	(2,704,298)
Contributions	171,445	53,584
Net cash provided by (used in) non-capital financing activities	<u>1,183,342</u>	<u>(1,367,840)</u>
Cash flows from capital and related financing activities:		
Repayment of capital leases	(106,453)	(270,901)
Acquisition and construction of capital assets	(3,059,423)	(1,722,675)
Contributed capital	2,415,045	1,186,622
Proceeds from sale of capital assets	35,117	-
Net cash used in capital and related financing activities	<u>(715,714)</u>	<u>(806,954)</u>
Net increase in cash	1,089,382	19,952
Cash at beginning of year	<u>3,850,619</u>	<u>3,830,667</u>
Cash at end of year	<u><u>\$ 4,940,001</u></u>	<u><u>\$ 3,850,619</u></u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (7,063,825)	\$ (6,952,289)
Adjustments to reconcile operating loss to net cash provided		
by operating activities:		
Depreciation	3,531,704	3,220,390
Bad debts	8,784,163	9,854,190
Other expense	(28,983)	-
(Increase) decrease in assets:		
Patient accounts receivable	(7,876,173)	(8,663,116)
Other receivables	(337,033)	(325,572)
Inventories	(394,449)	298,168
Prepaid expenses	(1,297,071)	(26,293)
Increase (decrease) in liabilities:		
Accounts payable	5,321,420	4,030,881
Accrued payroll and employee benefits	109,836	206,839
Accrued annual leave	310,987	(137,991)
Deferred retirement fund contributions	(277,369)	654,496
Other accrued liabilities	(161,453)	35,043
Net cash provided by operating activities	<u><u>\$ 621,754</u></u>	<u><u>\$ 2,194,746</u></u>

Non-cash transactions:

In September 2001, GMHA entered into an installment payment agreement with an electric utility, enabling GMHA to pay its \$2,016,892 balance over the next 48 months.

During the year ended September 30, 2000, GMHA recorded a reduction in accounts payable - Government of Guam of \$3,235,323 due to the forgiveness of accrued penalties and interest under the "Tax and Business License Amnesty Program." GMHA also recorded a reduction in accounts payable - Government of Guam of \$6,508,566 during the year ended September 30, 2000, due to a forgiveness of withholding taxes payable. This forgiveness of the payable was recorded as a transfer from the Government of Guam.

See accompanying notes to financial statements.

GUAM MEMORIAL HOSPITAL AUTHORITY

Notes to Financial Statements
September 30, 2001 and 2000

(1) Summary of Significant Accounting Policies

General. Guam Memorial Hospital Authority (GMHA) was created by Public Law 14-29 as an autonomous instrumentality (component unit) of the Government of Guam on July 26, 1977. The law provides for control of GMHA to be vested with the Board of Trustees of the Hospital. GMHA is a component unit of the Government of Guam.

Restricted Fund Balances. Restricted fund balances are used to differentiate between contributions which are restricted by a donor for a particular purpose or for a particular time frame, and contributions on which the donor places no restriction or amounts which arise as a result of normal operations of the Hospital.

Funds restricted for plant replacement and expansion are recorded as “assets released from restrictions” and are transferred from restricted to unrestricted fund balance to the extent expended within the period.

Accounting Standards. In fiscal year 2001, GMHA adopted the provisions of Statement No. 33 of the Governmental Accounting Standards Board (GASB 33), “Accounting and Financial Reporting for Nonexchange Transactions.” GASB 33 establishes standards for reporting the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB 33 were applied to all periods presented. As a result, grants from Federal grantor agencies passed through the Government of Guam are no longer directly credited to the Restricted fund balance, but are recorded as non-operating revenues in the Unrestricted Funds, and the statement of revenues and expenses for 2000 has been restated to reflect grants of \$1,186,622. Implementation of GASB 33 had no impact on the balance sheets and statements of cash flows.

Net Patient Service Revenue. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Cash. For purposes of the balance sheets and the statements of cash flows, cash is defined as cash on hand and cash on deposit in banks.

At September 30, 2001 and 2000, cash balances in banks of \$300,000, are covered by the Federal Deposit Insurance Corporation. The remaining balances are not insured.

Patient Accounts Receivable. Patient accounts receivable are primarily due from individuals and businesses located within Guam, the Federated States of Micronesia and from Medicare.

The allowance for uncollectible accounts receivable is determined based on past collection history for different classes of patient receivables. This allowance is based on estimates and, while management believes the amount is adequate, the ultimate uncollectible balance may differ from the amounts provided. The methods for making such estimates and for establishing the resulting allowance are continually reviewed, and any adjustments are reflected in earnings currently.

Inventories. Inventories are recorded at the lower of cost or market value, with cost being derived through an average historical cost.

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Notes to Financial Statements
September 30, 2001 and 2000

(1) Summary of Significant Accounting Policies, Continued

Accrued Annual Leave. Employees are credited with vacation leave at rates depending on their lengths of service. Accumulation of vacation leave is limited to 480 hours (580 hours for nurses) at fiscal year end and is convertible to pay upon termination of employment.

Property, Plant and Equipment. Property, plant and equipment acquired prior to June 30, 1978, are recorded at their appraised value as of that date. Subsequent additions are primarily valued at cost. Major renewals and betterments are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. Depreciation is provided over the estimated useful lives of the respective assets through use of the straight-line method. Useful lives for property, plant and equipment are based on the American Hospital Association Guide "Estimated Useful Lives of Depreciable Hospital Assets" and are as follows:

Building and land improvements	10-40 years
Equipment	3-20 years

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards. Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Facilities that use Proprietary Fund Accounting*, GMHA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Risk Management. GMHA is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from such matters. GMHA is self-insured for medical malpractice claims and judgements, as discussed in note 5.

Reclassifications: Certain balances in the 2000 financial statements have been reclassified to correspond to the 2001 presentation.

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Notes to Financial Statements
September 30, 2001 and 2000

(2) Property, Plant and Equipment

A summary of property, plant and equipment at September 30, 2001 and 2000, is as follows:

	<u>2001</u>	<u>2000</u>
Depreciable assets:		
Building and land improvements	\$ 61,934,845	\$ 60,100,311
Equipment	18,359,287	17,390,362
Equipment under capital lease	<u>3,201,832</u>	<u>3,159,028</u>
	83,495,964	80,649,701
Less accumulated depreciation and amortization	<u>(38,095,123)</u>	<u>(35,737,236)</u>
	45,400,841	44,912,465
Construction-in-progress	<u>240,324</u>	<u>1,236,099</u>
	\$ <u>45,641,165</u>	\$ <u>46,148,564</u>

(3) Contracts with Government Agencies

GMHA is reimbursed for the cost of patient services rendered under certain programs administered by government agencies (primarily Medicare). During the year, agencies reimburse GMHA on the basis of interim rates. Final settlements are based on annual cost reports prepared in accordance with agency requirements.

(4) Employees' Retirement Plan

Employees of GMHA hired before October 1, 1995, are under the Government of Guam Employees' Retirement System (a single-employer defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Government of Guam's Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who were members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Requirements of both plans are established by Title 4 Guam Code Annotated, Chapter 8, Articles 1 and 2.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which GMHA contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation, performed as of September 30, 2000, it has been determined that for the year ended September 30, 2001, a minimum combined employer and employee contribution rate of 33.41% of covered Defined Benefit payroll, is required to appropriately fund current retirement costs, to amortize prior service costs and to provide for interest on the unfunded accrued liability. Statutory contribution rates for employer and employee contributions were 19.675% and 9.5%, respectively, for the year ended September 30, 2001. The effect of GMHA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 23.91% to an effective rate of 17.55% for the year ended September 30, 2001. In recognition of the above effect, an accrual decrease of 2.122% of covered payroll is necessary to decrease the unfunded liability based on the difference between the effective rate of 17.55% and the employer's statutory rate of 19.675%. The effective employer's accrual rate for the year ended September 30, 2000 was 20.47%.

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Notes to Financial Statements
September 30, 2001 and 2000

(4) Employees' Retirement Plan, Continued

The Defined Benefit Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 2000, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for GMHA as a separate entity, the accrual unfunded liability at September 30, 2001 and 2000, may be materially different than that recorded in the accompanying financial statements.

Contributions into the DCRS by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Employer contributions into the DCRS are based on a statutory amount of 19.675% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 14.675% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Retirement expense for the years ended September 30, 2001 and 2000, is as follows:

	<u>2001</u>	<u>2000</u>
Current contributions	\$ 5,580,951	\$ 5,306,302
(Decrease) increase in unfunded retirement liability	<u>(408,371)</u>	<u>654,494</u>
	\$ <u>5,172,580</u>	\$ <u>5,960,796</u>

(5) Commitments and Contingencies

Litigation - GMHA is the defendant in several malpractice claims and has received several claims that are pending review or are expected to go to litigation. While GMHA intends to pursue an aggressive defense of these cases and claims, the possibility exists that some may result in material monetary damages being awarded to claimants or plaintiffs. At September 30, 2001, GMHA's known maximum exposure under these claims is approximately \$3.2 million. However, GMHA is unable to estimate the actual monetary damages from these self-insured malpractice claims. A provision of \$252,000 has been recorded in the financial statements for losses that may result from these claims.

Reserve for Encumbrances - As of September 30, 2001, GMHA had material purchase commitments under outstanding encumbrances.

Self-Insurance - GMHA is self-insured for malpractice. GMHA's exposure under malpractice claims is limited to \$300,000 per claim by the Government Claims Act.

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Notes to Financial Statements
September 30, 2001 and 2000

(5) Commitments and Contingencies, Continued

Medicare - The Government of Guam and its component units, including GMHA, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998 for employees hired after March 31, 1986. Prior to October 1998, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security System. If the Government is found to be liable for such amounts, an indeterminate liability could result. It is the opinion of GMHA and all other component units of the Government of Guam that this health insurance component is optional prior to October 1998. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

Questioned Costs - GMHA is in noncompliance with Office of Management and Budget (OMB) Circular A-133 procurement requirements, resulting in a questioned cost of \$1.2 million. However, the decision to have GMHA repay the \$1.2 million in questioned costs ultimately rests with the Federal grantor agency. No liability has been recorded in the accompanying financial statements for this contingency.

Memorandum of Understanding - In fiscal year 1995, GMHA received a \$6 million advance from the Government of Guam and entered into a Memorandum of Understanding (MOU) to repay the advance by endorsing back to the Government of Guam 50% of the payments received under the Medically Indigent Program. No repayments have been made by GMHA since 1996 and GovGuam has made no attempts to collect the remaining balance. GMHA has interpreted GovGuam's inaction as a forgiveness of this debt and wrote off the outstanding balance of \$2,901,446 at September 30, 1999. However, the MOU is still in effect and it is possible that GMHA may be called upon to repay this balance at some time in the future.

(6) Long-Term Debt

At September 30, 2001 and 2000, long-term debt consists of the following:

	<u>2001</u>	<u>2000</u>
Promissory note payable to a bank in monthly installments of \$292,260 including interest at a variable rate based on the bank's index rate less one half percentage point (5.5% and 9% at September 30, 2001 and 2000, respectively), due in 2002 with an extension of the promissory note for seven additional years, collateralized by a pledge and assignment of medical services revenue and a property mortgage on the hospital facility and guaranteed by the Government of Guam and a pledge of Government of Guam Section 30 revenues, subordinate to certain Government of Guam bond issuances. The note was paid in full in December 2001.	\$ 20,767,568	\$ 22,538,053
Promissory note payable to the Government of Guam Retirement Fund in equal quarterly installments of \$366,064 including interest at the bank's prime rate plus 1% (9% and 9.25% at September 30, 2001 and 2000, respectively) starting March 1998 with a balloon payment in March 2003. Effective for the quarter ended June 30, 2001, and thereafter, the quarterly installments increased to \$401,330.	7,748,022	8,122,477

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Notes to Financial Statements
September 30, 2001 and 2000

(6) Long-Term Debt, Continued

	<u>2001</u>	<u>2000</u>
Balance due on electrical service with electric utility, payable in total monthly installments of \$45,965 including interest at 4.47%, due September 2004.	2,016,892	-
Balance due on several capital leases of computer hardware and software with a computer manufacturer, payable in total monthly installments of \$10,210 including interest at effective rates ranging from 6.7% to 7.6%, collateralized by computer hardware and software, with a bargain purchase option at the end of the lease.	164,448	270,900
Promissory note payable to a medical equipment vendor, payable in quarterly installments of \$60,195 including interest at the prime rate plus 2% (10.25% at September 30, 2000), due December 18, 2001.	-	51,903
Promissory note payable to a medical equipment vendor, payable in monthly installments of \$7,026 including interest at the rate of 11.5%, due June 15, 2001.	<u>-</u>	<u>60,308</u>
Total long-term debt	30,696,930	31,043,641
Current portion	<u>3,855,062</u>	<u>3,191,099</u>
	\$ <u>26,841,868</u>	\$ <u>27,852,542</u>

The scheduled maturities of long-term debt at September 30, 2001, are as follows:

<u>Year ending September 30,</u>	
2002	\$ 3,855,062
2003	8,827,900
2004	2,745,220
2005	2,953,409
2006	2,615,828
Thereafter	<u>9,699,511</u>
	\$ <u>30,696,930</u>

(7) Transfers from the Government of Guam and Going Concern

Transfers from the Government of Guam General Fund to GMHA were \$5,651,175 and \$9,453,997 for the years ended September 30, 2001 and 2000, respectively. In addition, GMHA recorded other revenue in 2000 of \$3,235,323 resulting from the forgiveness of accrued penalties and interest on past due withholding taxes under a tax amnesty program. GMHA recorded \$1 million in transfers from the Government of Guam General Fund during the year ended September 30, 2000, under Emergency Declarations by the Governor of Guam.

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Notes to Financial Statements
September 30, 2001 and 2000

(7) Transfers from the Government of Guam and Going Concern, Continued

GMHA has recorded operating expenses in excess of operating revenues in both 2001 and 2000. This condition raises substantial doubt about GMHA's ability to continue as a going concern without continuing subsidies from the Government of Guam.

(8) Patient Accounts Receivable, Net

As of September 30, 2001 and 2000, patient accounts receivable, net, were as follows:

	<u>2001</u>	<u>2000</u>
Total patient accounts receivable	\$ 83,673,963	\$ 75,519,651
Less allowance for doubtful receivables	(56,501,712)	(47,439,410)
Patient accounts receivable, net	\$ <u>27,172,251</u>	\$ <u>28,080,241</u>

(9) Accounts Payable - Government of Guam

Accounts payable to the Government of Guam at September 30, 2001 and 2000 include \$8,796,288 and \$4,171,596, respectively, due to the Government of Guam Retirement Fund. GMHA incurred \$735,091 and \$685,853 in interest and penalties during the years ended September 30, 2001 and 2000, respectively, due to its failure to deposit income taxes withheld from employees with the Department of Revenue and Taxation and employee and employer retirement payments with the Government of Guam Retirement Fund.

(10) Temporarily Restricted Fund Balance and Donor Restrictions Released

The restricted fund balance at September 30, 2001 and 2000, is temporarily restricted for use in capital improvements to renovate or expand the hospital and the long-term care facility.

Temporarily restricted fund balances were released from donor restrictions by incurring costs satisfying the restricted purposes. Purpose restrictions accomplished were for capital expenditures under Federal programs.

(11) Subsequent Events

In December 2001, the note payable to a bank was paid in full (See note 6).

On July 5, 2002, the island of Guam was struck by a super typhoon. Damages from this typhoon are estimated at \$900,000, which is below the deductible amount in GMHA's typhoon insurance coverage. GMHA is attempting to recover a portion of the damages from federal sources.

On November 21, 2002, the Superior Court of Guam ordered GMHA to pay its outstanding liabilities to the Government of Guam Retirement Fund. As of September 30, 2001, outstanding liabilities to the GovGuam Retirement Fund total \$16 million.

On December 8, 2002, the island of Guam was struck by a super typhoon. The hospital building was severely damaged. Damages from the typhoon are estimated at \$3 million. GMHA expects much of the damage to be covered by insurance; however, total typhoon damages and the related insurance settlement are presently not determinable.

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Schedule 1
Schedule of Expenses
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Nursing:		
Salaries - regular	\$ 14,509,325	\$ 14,757,754
Salaries - overtime and incentive pay	7,017,070	3,836,652
Fringe benefits	<u>3,371,481</u>	<u>3,518,732</u>
Total personnel costs	24,897,876	22,113,138
Supplies and materials	3,488,654	3,005,452
Miscellaneous	<u>683,909</u>	<u>902,990</u>
	<u>\$ 29,070,439</u>	<u>\$ 26,021,580</u>
Ancillary:		
Salaries - regular	\$ 5,562,331	\$ 5,686,101
Salaries - overtime and incentive pay	2,206,253	1,207,024
Fringe benefits	<u>1,476,058</u>	<u>1,533,164</u>
Total personnel costs	9,244,642	8,426,289
Supplies and materials	5,401,780	5,224,454
Contractual services	2,050,218	2,135,155
Miscellaneous	<u>96,348</u>	<u>96,559</u>
	<u>\$ 16,792,988</u>	<u>\$ 15,882,457</u>
General Services:		
Salaries - regular	\$ 3,387,349	\$ 3,442,614
Salaries - overtime and incentive pay	723,281	435,842
Fringe benefits	<u>996,312</u>	<u>962,863</u>
Total personnel costs	5,106,942	4,841,319
Utilities	1,723,971	1,633,346
Supplies and materials	885,735	655,195
Contractual services	1,024,007	1,963,048
Miscellaneous	<u>105,517</u>	<u>141,185</u>
	<u>\$ 8,846,172</u>	<u>\$ 9,234,093</u>
Administrative Support:		
Salaries - regular	\$ 3,882,973	\$ 3,846,841
Salaries - overtime and incentive pay	812,450	421,984
Fringe benefits	1,076,904	1,013,145
Annual leave expense	<u>472,570</u>	<u>617,227</u>
Total personnel costs	6,244,897	5,899,197
Contractual services	907,410	1,079,216
Supplies and materials	900,123	868,916
Miscellaneous	<u>156,070</u>	<u>395,692</u>
	<u>\$ 8,208,500</u>	<u>\$ 8,243,021</u>

See accompanying independent auditors' report.

GUAM MEMORIAL HOSPITAL AUTHORITY

Schedule 1
Schedule of Expenses, Continued
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Administration:		
Salaries - regular	\$ 686,386	\$ 607,955
Salaries - overtime and incentive pay	71,952	52,463
Fringe benefits	<u>461,148</u>	<u>345,591</u>
Total personnel costs	1,219,486	1,006,009
Miscellaneous	829,940	642,091
Contractual services	209,373	782,407
Public Utilities Commission	<u>-</u>	<u>572,876</u>
	\$ <u><u>2,258,799</u></u>	\$ <u><u>3,003,383</u></u>
Medical Staff:		
Salaries - regular	\$ 671,288	\$ 619,774
Salaries - overtime and incentive pay	144,984	62,345
Fringe benefits	<u>252,114</u>	<u>285,051</u>
Total personnel costs	1,068,386	967,170
Contractual services	1,646,729	1,306,597
Miscellaneous	<u>22,452</u>	<u>14,329</u>
	\$ <u><u>2,737,567</u></u>	\$ <u><u>2,288,096</u></u>
Employees at end of year	<u><u>945</u></u>	<u><u>938</u></u>

See accompanying independent auditors' report.